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Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

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Political reverses abroad, interest rate choppiness at home--all told, an unsettled week in U.S. financial markets. Different markets showed different patterns over the course of the week, reflecting different demand/supply balances and the fact that the startling rally of recent weeks left some markets lagging after others. By Friday, however, a general trend was developing--lower prices and higher yields, especially for longer maturities. This is no surprise, given the strength of the recent rally. Market participants have begun to wonder if the rally did not push prices up too far too fast, and a period of consolidation may have set in.

The failed U.S. rescue attempt in Iran added to market nervousness, but the upward trend in rates was already established, and markets showed little overt reaction to the news. In the government market, which is setting the pace, rates hit a low just after Wednesday's one-year bill auction pointed to some buyer resistance. Ninety-day bills, at a Wednesday low of 11.60% (discount basis), rose to 11.96 by Thursday's close. In price terms, longer-maturity governments moved more sharply; the long bond (due 2010) fell from last week's high of 108 to 104.5 by Friday noon.

In the short-term money markets, most rates also tended up late in the week, following earlier sharp declines. There was a key exception; two major banks cut the prime lending rate to 19%. This lag is typical, and further cuts in prime rates can be expected even if other short-term rates stabilize or move temporarily higher. The prime rate also lagged when rates were rising.

"Too far too fast" was also the mood in corporate and municipal markets, where rates followed the government market up, with particular pressure on the long end. The Bond Buyer Index of municipal yields rose from 7.89% to 8.11%, after last week's 118 basis point drop--something of an overstatement of the deterioration this week, given the Index's heavy weighting of long issues. In the corporate market, rates also moved up, but the keynote of the week was the massive increase in expected supply. With rates down, borrowers are flocking to market, and the 30-day supply is moving toward \$2 billion. Normally, recession years see high levels of new corporate offerings; 1980 could top the previous peak.

For the broad spectrum of rates, some backup was very probable, given the spectacular drops of recent weeks. Thus far, the backup has been modest, largely because of the Federal Reserve's apparent (and unexpected) willingness to tolerate market rate drops--many assume an easing in Fed policy, given the fact that Federal funds were allowed to trade down to less than 16% before the Fed put on the brakes. Even so, the decline in other short-term rates has discounted everything the Fed has done to date and a bit more. If Federal funds have arrived at a stopping place (which some suspect, given the recent free-fall and mounting pressure on the dollar abroad), other short-term rates may have some further upward momentum. Given the rapid jump in new supply, the bond markets would be vulnerable to repercussions.

Anne Parker Mills



Irving Trust

Market Yields

	4/25/80 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	19.50%	19.50%	11.75%
Effective since	4/18/80		
Discount Rate at Federal Reserve Bank	13.00/16.00	13.00/16.00	9.50
Federal Funds	15.88	18.50	10.13
Repurchase Agreements	14.50	16.00	8.75
U.S. Treasury Issues			
Bills			
3 months	12.50	14.20	9.80
6 months	12.60	13.70	10.20
1 year	11.55	13.00	10.40
Coupons			
2 years	11.50	12.40	9.84
4 years	11.34	11.90	9.34
7 years	11.11	11.26	9.26
10 years	11.03	11.33	9.30
Long Bond	11.22	11.16	9.20
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.65	16.75	9.90
3 months	14.40	16.30	10.25
6 months	14.25	17.65	10.53
1 year	N/A	N/A	10.65
Banker's Acceptances			
1 month	14.30	16.60	10.03
3 months	14.35	16.55	10.30
6 months	14.25	15.40	10.63
Eurodollar Deposits			
1 month	16.13	17.69	10.50
2 months	16.31	17.63	10.69
3 months	16.38	17.44	10.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	12.00	9.00
1 month	12.00	15.00	9.38
3 months	12.00	13.00	9.50
Bank Holding Companies			
1 month	13.75	15.75	9.38
Dealer Placed:			
3 months	12.00	15.80	9.63
New AA Corporate Utility Bond	14.50	14.25	9.95
Tax Exempt			
6 month Project Notes	6.75	6.75	5.20
1 year AAA Bond	6.40	6.50	N/A
5 year AAA Bond	6.50	6.50	N/A
20 year AAA Bond	7.50	7.30	5.85

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629